HOUSE BUDGET COMMITTEE

Democratic Caucus

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CBO's "Dynamic" Analysis of President's Budget Shows No Boost to the Economy and Large, Chronic Deficits

Dear Democratic Colleague,

On Tuesday, the Congressional Budget Office (CBO) released a "dynamic" analysis showing that the President's budget has, at best, a modest effect on economic growth and may well hurt the economy. All of the economic models used in CBO's report emphatically reject supply-siders' assertion that tax cuts actually reduce budget deficits, rather than widening them, because they boost the economy dramatically. Furthermore, CBO has told us that "the overall macroeconomic effects of the proposals in the President's budget is not obvious."

CBO came to a conclusion that surprised those who sought it. Republicans have long advocated dynamic analysis, which tries to take greater account of the economy's feedback onto the budget. They had hoped dynamic analysis would show strong, positive economic and budget effects from the President's policies. Instead, at least five of CBO's nine dynamic estimates — based on alternative models or assumptions — showed a ***negative*** impact on economic growth and worse deficits than those derived using CBO's traditional "static" scoring.

Just as troubling, the dynamic estimates in CBO's report that do show positive supply-side effects assume a huge, permanent tax increase starting in 2014 to pay for the deficits and added interest obligations incurred up until then. These three scenarios assume that people know the large and permanent tax increases are coming and work harder now to prepare for higher taxes later. The size of the 2014 tax increase needed to offset the debt buildup from the Bush budget would have to be more than 2 percent of GDP — about $200 billion per year relative to today's economy — forever.

One conclusion the CBO report draws is that traditional "static" evaluation of budget proposals is at least as reliable as so-called "dynamic" analysis. CBO's dynamic estimates of future deficits cluster closely around the traditional static estimate. When dynamic estimates do diverge from CBO's traditional deficit projections, the dynamic estimates show adverse impacts on the economy and the budget more often than beneficial impacts.

More importantly, though, the CBO report debunks Republicans' supply-side theory about tax cuts paying for themselves through wondrous effects on economic growth. Even the most optimistic of CBO's scenarios shows economic feedbacks reducing the deficit impact of the President's policies by at most 17 percent — far short of an offset of 100 percent needed for Republican tax cuts truly to pay for themselves.

The reason the CBO report discredits supply-siders' exaggerated claims is that deficits matter. Mounting public debt cannot be rolled over forever. Eventually, debts and the interest on them must be paid with taxpayers' money. Tax cuts do not pay for themselves, magically reducing, rather than worsening, budget deficits. And, the prospect of uncontrolled federal borrowing weighs on the economy, hurting private investment and the growth of living standards.

Dynamic scoring was always just another budget gimmick. It was intended to cloak the large and chronic deficits that result from a single-minded agenda of tax cuts at any cost. Now that CBO has done a careful dynamic analysis of the President's budget — an analysis that includes the harmful effects of deficits — perhaps the Congress can get back to meaningful work on the budget. We need no longer be distracted by promises that supply-side economics offers a magic elixir for painless budget choices.

Sincerely,

John M. Spratt, Jr.
Ranking Member